



NATIONAL CONFERENCE *of* STATE LEGISLATURES

The Forum for America's Ideas

STATEMENT OF RECORD

SENATOR ELLEN ROBERTS, COLORADO

CO-CHAIRS, BUDGETS AND REVENUE COMMITTEE

ON BEHALF OF THE

NATIONAL CONFERENCE OF STATE LEGISLATURES

REGARDING

**“Tax Reform and Tax Provisions Affecting State and Local
Governments”**

TO THE

COMMITTEE ON WAYS AND MEANS

UNITED STATES HOUSE OF REPRESENTATIVES

APRIL 2, 2013

Dear Chairman Camp and Ranking Member Levin:

We appreciate the opportunity to submit the following statement on state and local taxation on the behalf of the National Conference of State Legislatures (NCSL) and respectfully request that you enter it into the official record. NCSL is a bipartisan organization that serves the legislators and staffs of the nation's 50 states, its commonwealths and territories. We are pleased you held a hearing looking into the interrelated nature of federal and state taxes, as so often this relationship is overlooked and undervalued. As you work toward comprehensive tax reform, NCSL would like to remind the committee that federal and state tax systems are inextricably linked, and any federal tax reform efforts will likely have serious fiscal and administrative ramifications on states. We recommend you carefully consider the effect any changes you propose would have on state revenue authority and the states' abilities to fund a wide array of public works' activities.

NCSL urges the committee to adhere to the following principles as you consider reforming the federal tax code:

- Maintain the tax-exempt status of state and local government bonds for infrastructure and capital projects;
- Preserve the fiscal viability and sovereignty of state governments;
- Preserve states' abilities and discretion to tax certain revenue sources;
- Protect the state and local income tax, sales tax and property tax deductions for federal income tax purposes; and
- All federal tax law changes should be prospective so that states do not suffer unexpected revenue losses that would emanate from a retroactive application.

The first principle is the most beneficial and productive instrument for governmental infrastructure and capital needs purposes. Since the inception of the federal income tax, municipal bonds have received an interest exclusion due to the reciprocal immunity principle between the federal and state and local governments. Municipal bonds are also exceptional economic development and job creating/maintaining tools. Any restriction would likely lead to increased costs or less investment activity, and in comparison to other bond subsidies this tax treatment is the most effective tool for infrastructure development. We ask you to keep in mind the positive factors of this public financing instrument in your future deliberations.

In 2010 NCSL established a task force whose goal was to ensure any federal deficit reduction plan does not result in exporting the deficit to state governments. Several principles became readily apparent. These include no new unfunded mandates on state governments, the support

of infrastructure programs and programs serving low-income populations, the enactment of the Marketplace Fairness Act, and the preservation of tax-exempt financing for municipal bonds.

NCSL understands the desire for the committee to simplify the federal tax code, and ultimately the objective for Congress to address the nation's fiscal challenges. While we recognize state and local governments will see funding reductions due to federal deficit savings, states and localities will struggle if we are disproportionately impacted or an unreasonably fiscal burden is shifted on us. NCSL strongly opposes any effort by Congress or the administration that singularly targets state and local revenue bases or infrastructure financing mechanisms.

We are pleased you have conducted this hearing and welcome the opportunity to work collaboratively with the committee in your effort to reform the federal tax code. For additional information, please contact Michael Bird (202-624-8686; michael.bird@ncsl.org) or Jeff Hurley (202-624-7753; jeff.hurley@ncsl.org).